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SUBJECT: PM ADVISOR ON STRATEGY TO INCREASE OIL PRODUCTION

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Classified By: EMIN Ambassador Marc Wall, reasons 1.4(b,d)

[1](#)1. (C) SUMMARY: During a February 5 meeting with EMIN, Prime Ministerial Advisor Thamir Ghadban was confident that Deputy Prime Minister Barham Salih's initiative to examine ways to boost oil production would not undercut the Ministry of Oil's licensing round. We heard separately that the February 12-14 licensing round workshop in Istanbul would be postponed until the end of February, due to the volume of questions received regarding the model contract from participating companies. Ghadban offered his own view that empowering the Ministry of Oil operating companies, such as the North Oil and South Oil Companies, is an essential step to increasing oil output and improving the general efficiency of petroleum operations. Ghadban also clarified that he did not sign the report of the oil production committee that he headed on procedural, rather than substantive, grounds. END SUMMARY

The Istanbul Workshop

[1](#)2. (SBU) Ghadban was confident that a February 20-22 conference on oil production (to be held in Baghdad, organized by DPM Barham Salih at the Prime Minister's request) would not interfere with the licensing round process that the Ministry of Oil (MoO) had launched to invite international oil companies (IOCs) to develop and expand production at six producing oil fields and two gas fields. The MoO's February 12-14 workshop in Istanbul was designed to allow the companies participating in the licensing round to provide their views on a model contract. Ghadban described it as "a clarification meeting plus a pre-negotiation." The IOCs had submitted hundreds of questions.

[1](#)3. (C) Implicitly acknowledging the weaknesses of the model contract, Ghadban said the MoO had to respond to concerns both within and without the Ministry, such as from Parliament. The decision to invite IOC participation in producing oil fields had been controversial, so MoO had to make the terms of the model contract more stringent to safeguard MoO control, but this had also resulted in some vagueness. The mechanism adopted had been to designate the IOC as a "co-operator." As a result, the IOC would not be in charge of operations either legally or contractually, but would still be responsible for increasing output. "How could a company be in an advisory position but still contractually responsible?" Ghadban asked rhetorically. (Note: We heard subsequently from MoO officials that the Istanbul workshop is likely to be postponed by about two weeks, to the end of February, due to the volume of questions received. Petroleum Contracts and Licensing Directorate Director General Natic al-Bayati was in Istanbul February 7 to confer with licensing round contractor, Gaffney, Kline, and Associates, on whether to defer the meeting.)

¶4. (SBU) With respect to the oil production conference being convened by Deputy Prime Minister Barham Salih, Ghadban commented that it would be useful. Since the Prime Minister and Parliament were worried about lower oil revenues, Barham was taking initiatives to examine all options to increase production, but Ghadban expressed skepticism that Barham would be able to get the MoO to implement any changes. Ghadban personally advocated giving more power to the MoO's operating companies. (Note: The MoO comprises 16 operating companies, including the North and South Oil Companies, that conduct the entire spectrum of petroleum sector activity, e.g., new construction, drilling, refined productions distribution, etc.) He wanted the operating companies to benefit from an easement of legal, administrative, and contractual requirements. In addition, Ghadban advocated the use of international oil service companies and other oil contractors. He noted that the MoO operating companies needed to carry out a range of tasks to maintain oil production -- drilling, pipeline surveys, detection and repair of storage tank leaks, repair of compression turbines, etc. IOCs normally contracted out many of these functions with, for example, Shell Oil not owning its own drilling rigs. Noting that "self-reliance is not working," Ghadban said that MoO had relied on oil service contracts before such assistance had been denied during the period of UN sanctions. The MoO operating companies had reached the limit of their capabilities and now needed to return to the past practice.

¶5. (SBU) Part of transferring authority, Ghadban continued,

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required that the MoO headquarters in Baghdad interfere less in operating company operations. MoO headquarters should set policy and provide production targets to operating companies, but leave to them how to implement policy and reach the production targets. Currently, for example, the South Oil Company Director General (DGs) could not sign a contract until he had sent it to MoO headquarters for review and approval. In addition, rather than having DGs obtain headquarters approval for specific hiring decisions, the MoO should set hiring policy and staffing levels. Because of the nature of the MoO's work, DGs should also have the power to approve contracts at higher monetary limits than currently, as well as, because of the expensive construction required, higher than for other ministries. Fully empowering the operating companies, Ghadban said, would allow the MoO to concentrate more fully on policy and oversight. As it was, Oil Minister Shahrastani received a foot-high stack of mail daily.

¶6. (SBU) Ghadban reasoned that the transfer of authority to the operating companies had no implications for the central and regional government relationship, since the operating companies were entirely "federally owned." Each operating company should have a Board of Directors over it with the operating company DG acting as "chairman of the board." The Board should also include a representative of the Provincial Council, but the operating companies should be immune from the provisions of the Provincial Powers Law.

Oil Production Committee

¶7. (C) When asked, Ghadban said he had not signed the report from the oil production committee that he headed because the report had been finalized without his review. While he did not disagree with the report's substance, the committee's recommendations were supposed to be focused on practical, objective solutions based on technical and some financial and legal grounds. Ghadban contradicted his own statement, however, when he added that the report's recommendations had also addressed some policy areas (which presumably were

outside what he considered the committee's terms of reference).

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